

COBRA BIOLOGICS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2016
Company No. 02710654

TUESDAY



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COBRA BIOLOGICS LIMITED

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COBRA BIOLOGICS LIMITED

DIRECTORS AND ADVISORS

Directors and officers

Peter Coleman	Chief Executive Officer
Carl-Johan Spak (resigned 21 Nov 2016)	Director
Richard Clay (resigned 21 Nov 2016)	Company Secretary
Steven Bell (appointed 21 Nov 2016)	Director and Company Secretary

Registered office

Stephenson Building
The Science Park
Keele
Staffordshire
ST5 5SP

Auditor

RSM Audit UK LLP
3 Hardman Street
Manchester
M3 3HF

COBRA BIOLOGICS LIMITED

STRATEGIC REPORT

Principal activities and future developments

The principal activity of the Company is the provision of manufacturing services for protein, virus and DNA based pharmaceuticals.

Cobra Biologics Limited has a strong presence in the provision of mammalian protein, microbial products, virus and DNA manufacturing services. As a subsidiary of Cobra Biologics Holding AB the Company's strategy is to expand its service offering through the installation of increased capacity, utilising disposable systems, with the aim to provide a one-stop-shop for contract manufacturing services of biopharmaceuticals. The Company expects to expand its current capabilities and in the future, to provide commercial manufacturing services for customer products.

In 2017 and beyond, the directors' focus will be to build on the growth seen in 2016 which saw the Company return to profitability, and they remain confident about the Company's commercial prospects.

Events after the balance sheet date

There have been no significant events since the balance sheet date.

Principal risks and uncertainties - Financial risks

The directors have overall responsibility for the establishment and oversight of the Company's risk management framework. Risk management policies are constantly reviewed, taking into account changes in market conditions and the Company's activities. A formal risk management update is presented to the Board bi-annually.

Interest rate risk: the Company is exposed to interest rate risk on funds borrowed at floating rates. The Company has been provided with unsecured working capital loans by Cobra Biologics Holding AB. The Company pays a fixed rate of 4% per annum above the base rate of the Royal Bank of Scotland Plc.

Liquidity risk: the Company manages liquidity by maintaining appropriate banking facilities and through loan facilities provided by the ultimate holding company. The directors continuously monitor cash flow forecasts, both short and long term and then measure these forecasts to actual performance. Consideration is also given to the maturity profiles of financial assets and liabilities.

Credit risk: the Company's credit risk relates to trade receivables and cash and cash equivalents. The Company utilises established UK banking entities whose credit rating and financial position is reviewed regularly and considers that the risk to cash and cash equivalents is not significant. The Company has no significant concentration of credit risk related to receivables, as the exposure is spread over a number of customers over different geographical areas. The Company uses publicly available trading records, web site analysis and press releases to rate both new and existing customers. The Company's maximum exposure to credit risk at 31 December 2016 was £3,794k (2015: £2,498k).

Foreign currency risk: the Company generated overseas revenue during the period, primarily from North America and Continental Europe. The position regarding currency risk is regularly reviewed given the significant volatility in both the US Dollar and the Euro. The Company also receives significant sums in Swedish Kroner. Foreign currency risk is managed through the use of foreign currency bank accounts and an offset overdraft facility between foreign and sterling accounts. Furthermore, overseas revenue is partially offset by overseas expenditure which mainly comprises of the salaries and costs of the US sales team and in Sweden the cost of sub-contracted services from affiliates. This is further mitigated by the Company's specialist skills being relatively price insensitive.

Commercial risks

In addition to the financial risks the Company's risk management framework has highlighted to the directors the following key commercial risks facing the Company:

Customer funding: the majority of the Company's customers are mid-sized biopharmaceutical companies, who are reliant upon funding from both the public and private capital markets for their product development. The Company constantly monitors via subscription to the appropriate database and/or the financial and trade press, the global pipeline funding to determine which companies are receiving that funding.

The Company anticipates being in a good position to take advantage of what is expected to be an increase in prospective business as we emerge from the global recession which has hit the funding for biologics products more than most. Throughout this difficult period, the Company has benefited from established contracts with its

Commercial risks (continued)

COBRA BIOLOGICS LIMITED

STRATEGIC REPORT

Customer funding (continued)

existing customer base. The Company will continue to seek and win business for the good product candidates developed by well-funded organisations. The Company carries out both technical and financial due diligence on all its customers prior to contract signature.

Regulatory compliance: the Company is required by the UK pharmaceutical regulator, the Medical and Healthcare Products Regulatory Agency (MHRA), as with all companies in the sector, through the EU Clinical Trials Directive to ensure that our manufacturing facilities provide services that are consistent and achieve the appropriate quality standards, termed current Good Manufacturing Practice (cGMP). Failure to comply with these regulations may result in production delays or even closure of our facilities until corrective action is in place. This risk is managed by employing and maintaining an experienced quality team of 9 employees, one of which is a Qualified Person (QP).

Maintenance, validation and upgrade of facilities: the Company's facilities are maintained to both full cGMP and MHRA compliance, therefore continued capital investment is of key importance to on-going activities in these facilities and the Company made cash investments of £0.5m in property, plant and equipment in 2016 (2015: £0.6m).

Recruitment, retention and training of employees: the Company operates in a knowledge based industry and recognises the importance of the appropriate recruitment and retention of its highly skilled workforce. The Company operates a performance management and appraisal framework which links directly into the risk management process and the financial objectives of the business. The Company has a preferred list of recruitment agents to build relationships and ensure the Company offers competitive salaries. The Company also places great emphasis on open and dynamic communication with its employees, which includes a Staff Committee, regular company briefings and updates from the CEO, guidance notes and published management structures and job descriptions.

Market fluctuations and customer product failure: The biopharmaceutical market is young and rapidly growing, which from time to time, is subject to trends and fluctuations. The product failure rate is also similar to the failure rate of conventional pharmaceuticals, in that 90% of phase I drugs fail to reach the commercial market. The Company attempts to mitigate this risk, by ensuring it has a wide customer base, working with 49 customers in 2016 (2015: 51), operating in all the biopharmaceutical market segments and being very thorough in both its customer financial and product potential due diligence.

Business review

Operations: Cobra Biologics Limited is primarily an international provider of manufacturing services for the global biopharmaceutical industry. The Company operates from UK based manufacturing facilities in Keele. The Company is a wholly owned subsidiary of Cobra Biologics Holdings Limited.

Going concern: In determining the appropriate basis of preparation of these financial statements, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of the approval of the financial statements.

At 31 December 2016 the Company had cash and cash equivalents of £1.0m (2015: £0.4m). It made a profit of £1.7m (2015: loss of £1.5m) for the twelve months preceding that date bringing the total deficit on profit and loss reserves to £57.2m (2015: £58.9m). Cobra Biologics Holding AB has pledged financial support to the Parent Company and the Company, to allow them both to meet their liabilities as they fall due, and continue to trade on normal business terms, for a period of no less than twelve months from the date of the approval of these financial statements.

The directors have prepared a detailed cash flow forecast for the twelve months after the date of the signing of these financial statements ("the forecast") which includes a number of assumptions regarding the delivery of the £29.0m secured orders (entire Cobra Biologics Holding AB group), the signing of priority leads into secured contracts, expenditure and cost base, cash flows and loans from Cobra Biologics Holding AB, as well as the continued support of Cobra Biologics Holding AB. As such the Directors believe that they have a reasonable expectation that the Company will be able to operate within its available resources and there will be sufficient funds to enable the Company to continue as a going concern for the foreseeable future. Based on this understanding, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments which would result from the basis of preparation being inappropriate.

COBRA BIOLOGICS LIMITED

STRATEGIC REPORT

Business review (continued)

Markets: of the \$40.1bn¹ spent on research and development in 2015 by public biotechnology research and development organisations in the USA, Europe, Canada and Australia, 81% or \$33.9bn¹ was spent by North American companies. Therefore, North America represents the primary market for Cobra Biologics services. However there is a significant amount of research and development expenditure, \$6.2bn spent by the remaining key biotech hubs, before accounting for the growing market in Asia.

It is estimated that the global market for the Company's biopharmaceutical contract manufacturing services, will grow with a compounded annual growth rate of 10% through to 2020. The vast majority of the market is for protein based manufacturing services. However there is also an available growing specialised niche market for virus based manufacturing services and DNA also maintains a steady demand. Cobra Biologics Limited can uniquely provide manufacturing services for all of these segments in addition to cell based therapies.

Sales and marketing: North America is still the main source of revenue with 57% of the total revenue in 2016 (2015: 45%) achieved through a US based sales force which currently employs 2 business managers, covering the major biotechnology hubs of the US. In addition the Company has 3 business managers covering both Europe (including the UK) a combined territory that generated 24% of revenue in the period (2015: 37%) and the Rest of the World providing a steady contribution of 19% (2015: 18%). The sales team focus on well-funded mid-size biotechnology product companies with a requirement for process development expertise and specialised manufacturing services.

Research and development: to maintain the Company's scientific competitive edge, the Company has a dedicated research and development team, which employed on average 4 people in 2016 (2015: 4) through which the Company generates revenue from customer's research contracts and develops its own intellectual property, through innovative manufacturing processes.

Contract values: these are variable and range from £0.1m to £5m, dependent upon the size and complexity of the programme. It usually follows that the further down the regulatory process our customer is the higher the value of the potential contract.

Key performance indicators

The Company operates in a complex industry, with a requirement for specialist knowledge. However the financial business model is one of a conventional contract manufacturing business, whose primary objective each financial year is to fill capacity slots and thereby cover the fixed overhead cost. 2017 revenue includes £1.1m relating to a one off full and final settlement of a licence agreement.

The directors believe that the table below sets out the key performance indicators of the Company and its performance against them:

	12 months to 31 December 2016	12 months to 31 December 2015
Revenue	£23.1m	£16.9m
Deferred income at period end	£5.1m	£4.3m
Gross margin	25.7%	15.4%
Operating cash inflow	£2.1m	£0.3m
Cash and cash equivalents at period end	£1.0m	£0.4m
Employee recruitment: average headcount	89	85
Revenue per average headcount	£260k	£199k
	23 May 2017	16 May 2016
Group contracted forward order book*	£29.0m	£24.5m

Approved by the Board on 19 June

2017 and signed by order of the Board by


Steven Bell
Company Secretary

*includes all subsidiaries of Cobra Biologics Holdings AB

¹ Ernst & Young Beyond Borders Biotechnology Report 2016, Giovannetti & Jaggi

COBRA BIOLOGICS LIMITED

DIRECTORS REPORT

The directors of Cobra Biologics Limited present their report to the shareholder, together with the audited financial statements for the year ended 31 December 2016.

Capital structure

Cobra Biologics Limited is a limited company incorporated in England and Wales. It is a wholly owned subsidiary of Cobra Biologics Holdings Limited ("the Parent Company").

Results and dividend

The Company profit for the period after providing for taxation was £1.7m (2015: £1.5m loss) and an equivalent amount has been added to reserves. The directors do not propose the payment of a dividend (2015: nil).

The accumulated profit and loss reserve carried forward for the Company amounted to a deficit of £57.2m (2015: deficit £58.9m).

Directors

The directors in office throughout the period are listed below:

Peter Coleman	Chief Executive Officer
Carl-Johan Spak	(resigned 21 Nov 2016)
Richard Clay	(resigned 21 Nov 2016)
Steven Bell	(appointed 21 Nov 2016)

Health and safety

The Company considers Health and Safety to be a top priority in its workplace and is committed to continual improvement of its Safety, Health, Environmental and Fire Protection Procedures through the training of all its employees. The directors review on an annual basis the level of compliance and are satisfied with the performance year on year.

Third party indemnity

The Company has a third party indemnity provision for the benefit of the directors which was in force during the period and remains in force at the date of this report.

Employee involvement

The Company recognises and seeks to encourage the involvement of its employees, with the aim being to recruit, motivate and retain employees. Employees are given training where appropriate.

Each employee receives a staff handbook, which outlines the Company's employment policies and includes a commitment to equal opportunities. The handbook is designed to attract and motivate employees regardless of sex, race, religion or disability. The staff handbook includes the Employment Equality (Age) Regulations which came into force on 1 October 2007 and wherever practicable gives full consideration to applications for employment from disabled persons.

The directors review employee retention year on year, and are satisfied.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and

COBRA BIOLOGICS LIMITED

DIRECTORS REPORT

- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors, individually, are aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

The auditor, RSM UK Audit LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Signed by order of the Board on its behalf by

S. J. Bell
Steven Bell
Company Secretary

Approved by the directors on 19 June 2017

COBRA BIOLOGICS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COBRA BIOLOGICS LIMITED

Opinion on financial statements

We have audited the financial statements on pages 8 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the provisions of the Companies Act 2006.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and, based on the work undertaken in the course of our audit, the Strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

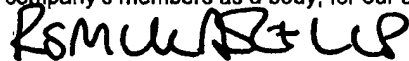
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on pages 5 to 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



GRAHAM BOND FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF

20/6/17

COBRA BIOLOGICS LIMITED

**STATEMENT OF TOTAL COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

Statement of income	Notes	2016 £000's	2015 £000's
Revenue	5	23,146	16,886
Cost of sales		<u>(17,205)</u>	<u>(14,282)</u>
Gross profit		5,941	2,604
Sales, marketing and distribution costs		(1,488)	(1,453)
Research and development		(415)	(479)
Administrative expenses		(2,296)	(2,167)
Other operating income	6	<u>148</u>	<u>135</u>
Operating profit/(loss)	7	1,890	(1,360)
Investment revenue	10	197	-
Finance costs	11	<u>(544)</u>	<u>(326)</u>
Profit/(loss) before tax		1,543	(1,686)
Taxation	12	<u>170</u>	<u>153</u>
Profit/(loss) for the period attributable to equity shareholders of the Company		1,713	(1,533)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income/(expense)		<u>1,713</u>	<u>(1,533)</u>

The results for the current and preceding year are derived from continuing activities.

COBRA BIOLOGICS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

Registered Number 02710654

	Notes	2016 £000's	2015 £000's
Non-current assets			
Property, plant and equipment	13	1,919	1,745
		<u>1,919</u>	<u>1,745</u>
Current assets			
Inventories	14	228	182
Trade and other receivables	15	4,573	3,627
Cash and cash equivalents		1,041	371
		<u>5,842</u>	<u>4,180</u>
Total assets		<u>7,761</u>	<u>5,925</u>
Current liabilities			
Trade and other payables	17	(2,613)	(2,961)
Deferred income		(5,137)	(4,280)
		<u>(7,750)</u>	<u>(7,241)</u>
Net current liabilities		<u>(1,908)</u>	<u>(3,061)</u>
Non-current liabilities			
Amounts owed to parent company	16	(15,983)	(7,297)
Amount due to group undertakings	16	(10,887)	(19,959)
		<u>(26,870)</u>	<u>(27,256)</u>
Total liabilities		<u>(34,620)</u>	<u>(34,497)</u>
Net liabilities		<u>(26,859)</u>	<u>(28,572)</u>
Equity			
Called up share capital	19	1,389	1,389
Share premium		28,940	28,940
Retained earnings – (deficit)		(57,188)	(58,901)
Total deficit on shareholders' funds		<u>(26,859)</u>	<u>(28,572)</u>

These financial statements were approved by the directors and authorised for issue on 19 JUNE 2017 and are signed on their behalf by:


Peter Coleman
Chief Executive Officer

COBRA BIOLOGICS LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000's	2015 £000's
Net cash inflow from operating activities	20	2,100	270
Investing activities			
Proceeds on disposal of property, plant and equipment		3	10
Payments to acquire property, plant and equipment		(503)	(633)
Net cash outflow from investing activities		(500)	(623)
Financing activities			
Loans from immediate parent undertaking		(9,072)	44
Loans from intermediate parent undertaking		8,686	836
Other interest payable		(2)	(3)
Interest on bank loans and overdrafts		(4)	(5)
Interest on loans from group companies		(538)	(305)
Net cash (outflow)/inflow from financing activities		(930)	567
Increase in cash and cash equivalents		670	214
Opening cash and cash equivalents		371	157
Closing cash and cash equivalents		1,041	371

COBRA BIOLOGICS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Share capital	Share premium	Retained earnings - Deficit	Total
	£000's	£000's	£000's	£000's
At 1 January 2015	1,389	28,940	(57,368)	(27,039)
Total comprehensive expense	-	-	(1,533)	(1,533)
At 31 December 2015	1,389	28,940	(58,901)	(28,572)
Total comprehensive income	-	-	1,713	1,713
At 31 December 2016	1,389	28,940	(57,188)	(26,859)

DESCRIPTION OF NATURE OF RESERVES

Share capital: represents the called up Ordinary share capital in the Company. This is not a distributable reserve.

Share premium: represents the value paid for Ordinary share capital in excess of their cost price. This is not a distributable reserve.

Retained earnings: represents the cumulative results of the company to the end of the current financial year. This is a distributable reserve.

COBRA BIOLOGICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Cobra Biologics Limited is a private limited company incorporated and domiciled in England and Wales. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the EU, International Financial Reporting Interpretations Committee ("IFRIC") Interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2012.

At the date of authorisation of these financial statements, the following amendments to Standards and new Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

	<i>Effective date:</i>
IFRS 15 Revenue From Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 16 Leases	1 January 2019

The directors have considered the above standards, interpretations and amendments and concluded that they are either not relevant to the Company or that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

Going concern: In determining the appropriate basis of preparation of these financial statements, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the balance sheet date.

At 31 December 2016 the Company had cash and cash equivalents of £1.0m. It made a profit of £1.7m for the twelve months preceding that date bringing the total deficit on reserves to £57.2m. Cobra Biologics AB has pledged financial support to the Parent Company and the Company, to allow them both to meet their liabilities as they fall due, and continue to trade on normal business terms, for a period of no less than twelve months from the date of the approval of these financial statements.

The directors have prepared a cash flow forecast for the twelve months after the date of the signing of these financial statements ("the forecast") which includes a number of assumptions regarding the delivery of the £29.0m group secured order, the signing of priority leads into secured contracts, expenditure and cost base, cash flows and loans from Cobra Biologics Holding AB, as well as the continued support of Cobra Biologics Holding AB. As such the directors believe that they have a reasonable expectation that the Company will be able to operate within its available resources and there will be sufficient funds to enable the Company to continue as a going concern for the foreseeable future. Based on this understanding, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments which would result from the basis of preparation being inappropriate.

Revenue: Excludes value added tax and represents amounts receivable in respect of the sale of services during the period. Revenue on contracts is invoiced in accordance with the terms of the agreement with the customer. Non-refundable deposits, which are usually invoiced and paid upon contractual signature, are recognised as revenue as the contract progresses. The remainder of the contractual revenue is recognised upon the stage of completion when the outcome of the contract can be foreseen with reasonable certainty and after allowing for costs of completion.

Cost of sales: Excludes value added tax and represents amounts payable in respect of delivering the services provided including external costs, personnel costs and subcontract costs provided by subsidiary undertakings. The subcontract costs are disclosed net of the recharged commercial services in sourcing the customer contracts.

COBRA BIOLOGICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure: Expenditure on new manufacturing process improvements or know how, which includes internal wage costs and external costs such as patenting, external studies and consultancy, which the Company is satisfied that it is probable that future economic benefit will result, is capitalised as an intangible asset and amortised through research and development expenditure over its expected useful life. Capitalisation commences from the point at which the technical feasibility and commercial viability can be demonstrated.

Expenditure that does not meet the above criteria is written off in the period in which it is incurred.

Foreign currencies: These financial statements are presented in the currency of the primary economic environment in which the entity operates (the "functional currency"). In preparing the financial statements, transactions in foreign currencies are recorded at the rates of exchange prevailing on the day of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.

Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

Employee benefits: The Company operates a defined contribution pension scheme, covering all eligible employees. Contributions to the defined contribution pension scheme and all other employee benefit costs, including holiday pay, are charged to the statement of comprehensive income on an accruals basis.

Property, plant and equipment: Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost less residual value of each asset evenly over its expected useful life as follows:

Plant and laboratory equipment	between 6.67 and 15 years
Office equipment	4 years

The cost of property, plant and equipment includes directly attributable finance costs, calculated on a day to day basis, on expenditure incurred during construction and modification. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Assets under construction include the costs directly attributable to bringing the asset into working condition for its intended use, and the costs are not depreciated until the asset is brought into use. Land and buildings are not depreciated. Depreciation is charged to administrative expenses.

Impairment: At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable useful amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment is treated as a revaluation increase.

COBRA BIOLOGICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation: The tax expenditure represents the sum of the current tax payable and deferred tax. The tax currently payable is based on the taxable profit for the period. Taxable profits differ from the net profit as reported in the statement of comprehensive income because it excludes items of income and expenses that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable loss, and is accounted for using the balance sheet asset method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited direct to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Government grants: Amounts received from government grants in respect of capital expenditure are credited to a deferred income account and are released to the statement of comprehensive income over the expected useful lives of the relevant assets by equal instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Inventories: Are stated in the balance sheet at the lower of cost incurred in bringing each element of inventory to its present location and condition, and net realisable value.

Raw materials: purchase cost on a first in first out basis.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal and provision is also made for slow moving or obsolete items.

Leasing and hire purchase commitments: Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the statement of comprehensive income over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Financial instruments: Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments.

Financial assets: All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

COBRA BIOLOGICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables: Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost less any impairment.

Impairment is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment charges are recognised in the statement of comprehensive income. Where an impairment loss subsequently reverses, the reversal shall not result in the carrying amount of the financial asset exceeding the amortised cost should that impairment not have been recognised in prior years.

Cash and cash equivalents: Cash and cash equivalents comprise cash on hand, on demand deposits and other short-term (with a maturity of three months or less) highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Equity instruments: An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities: A financial liability is any contractual arrangement for an entity to deliver cash to the holder of the associated financial instrument. If a financial instrument contains both an equity and a liability element, then the liability element is first established with any residual value being disclosed within equity shareholders' funds. The liability element is the present value of the future payments guaranteed to be made to the holders of the financial instrument. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities: Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies, which are described in note 3, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Revenue recognition: in making their judgement with regard to revenue recognition for its manufacturing services business, the directors have considered the detailed criteria for the recognition of revenue for the provision of services set out in IAS 18 'Revenue' and in particular for each service contract whether a stage deliverable had been achieved.

Going concern: in making their judgement with regard to going concern, the directors have considered the recent trading activity of the Company in conjunction with the preparation of a detailed cash flow forecast for the twelve month period from the date of the signing of these accounts. Further details on the judgements applied in determining the basis upon which the directors have made their judgements on going concern can be found in note 3 on page 12.

Key sources of estimation uncertainty

Impairment of assets: Determining whether the non-current assets of the Company and the carrying value of trade and intercompany receivables are impaired requires an estimation of the value in use of the cash generating units to which the assets have been allocated. The value in use requires management to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Additionally, estimates and assumptions have been made by management in respect of the fair values of the impairment of trade receivables, contract profitability, the estimated useful life of tangible and intangible assets, accruals and prepayments.

Recognition of deferred tax asset: A deferred tax asset is only recognised when it is probable that sufficient taxable profits will arise in the foreseeable future to enable the asset to reverse.

COBRA BIOLOGICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(continued)**

Research and development tax credits: In the assessment of the receivable from HMRC for Research and Development tax credits management have applied a degree of judgement around the nature of projects that meet the criteria for Research and Development. The value is only agreed upon approval of the Company Tax Return by HMRC.

5. REVENUE

All revenue is generated from continuing operations, the analysis of which is as follows:

	2016 £000's	2015 £000's
The rendering of manufacturing services	21,969	16,705
Licence revenue	<u>1,177</u>	<u>181</u>
	<u>23,146</u>	<u>16,886</u>

The geographical split of revenue is as follows:

	2016 £000's	2015 £000's
North America	13,235	7,599
Europe	5,437	6,248
Rest of World	<u>4,474</u>	<u>3,039</u>
	<u>23,146</u>	<u>16,886</u>

Included in 2016 revenue is £1,149k relating to a one off full and final settlement of a licence agreement.

6. OTHER OPERATING INCOME

	2016 £000's	2015 £000's
Management fee	23	10
Insurance claim	<u>125</u>	<u>125</u>
	<u>148</u>	<u>135</u>

7. OPERATING PROFIT/(LOSS)

This is stated after charging/(crediting):

	2016 £000's	2015 £000's
Research and development	415	479
Depreciation of property, plant and equipment	329	401
Staff costs (see note 9)	4,321	4,132
Profit on sale of property, plant and equipment	(3)	(3)
Operating lease charges – land and buildings	242	242
Operating lease charges – other	<u>79</u>	<u>29</u>

COBRA BIOLOGICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

8. AUDITOR'S REMUNERATION

	2016 £000's	2015 £000's
Fees payable to Company's auditor for the audit of annual accounts		
Audit of Company's financial statements	<u>12</u>	<u>12</u>
Fees payable to Company's auditor for other services to the Company		
Tax services	3	3
Other services pursuant to legislation	<u>2</u>	<u>2</u>
Total non-audit fees	<u>5</u>	<u>5</u>

9. STAFF COSTS

Directors' remuneration	2016	2015
Their aggregate remuneration comprised:	£000's	£000's
Aggregate emoluments	103	101
Employers NI	13	13
Company contributions to defined contributions pension scheme	<u>20</u>	<u>13</u>
	<u>136</u>	<u>127</u>

At 31 December 2016 there were 2 directors (2015: 1) to whom retirement benefits were accruing under defined contributions pension schemes.

During the 12 months to 31 December 2016 the highest paid director received aggregate emoluments of £95k and company contributions to defined contributions pension scheme of £19k.

No remuneration was made to any directors not paid by the company.

Employees (including directors)	2016	2015
The average monthly number of people (including directors) employed:	No.	No.
Manufacturing	63	58
Sales, marketing and distribution	12	12
Research and development	4	4
Administration	<u>10</u>	<u>11</u>
	<u>89</u>	<u>85</u>
Their aggregate remuneration comprised:	2016	2015
	£000's	£000's
Wages and salaries	3,644	3,548
Social security costs	312	331
Other pension costs	<u>365</u>	<u>253</u>
	<u>4,321</u>	<u>4,132</u>

COBRA BIOLOGICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

10. INVESTMENT REVENUE

	2016 £000's	2015 £000's
Exchange rate gain	<u>197</u>	<u>-</u>
	<u>197</u>	<u>-</u>

11. FINANCE COSTS

	2016 £000's	2015 £000's
Interest payable on bank loans and overdraft	4	5
Other interest payable	2	3
Interest payable to group companies	538	305
Exchange rate loss	<u>-</u>	<u>13</u>
	<u>544</u>	<u>326</u>

12. TAXATION

	2016 £000's	2015 £000's
Tax credit in relation to R&D claim	(37)	(50)
Adjustments in respect of previous periods	<u>(133)</u>	<u>(103)</u>
	<u>(170)</u>	<u>(153)</u>

Factors affecting the tax credit for the period	2016	2015
The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:		
	£000's	£000's
Profit/(loss) before tax	<u>1,543</u>	<u>(1,686)</u>
Loss before tax multiplied by the standard rate of Corporate Tax in the UK of 20.00% (2015: 20.25%)	309	(341)
Effect of		
Disallowed expenses and non-taxable income	5	1
Depreciation in excess of capital allowances	5	8
Loss relief claim	(94)	(144)
Tax losses (utilised)/carried forward	(276)	353
Losses surrendered for tax credit	14	73
Adjustment in prior year	<u>(133)</u>	<u>(103)</u>
Current tax charge for the period	<u>(170)</u>	<u>(153)</u>

Factors affecting future tax charges

The trading losses carried forward available for set off against future profits arising from the same trade amount to approximately £29m (2015: £29m).

COBRA BIOLOGICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

12. TAXATION (continued)

Deferred taxation

The deferred tax recognised and not recognised is as follows:

	Recognised 31 Dec 2016 £000's	Not Recognised 31 Dec 2016 £000's	Recognised 31 Dec 2015 £000's	Not Recognised 31 Dec 2015 £000's
Accelerated capital allowances	-	(883)	-	(1,174)
Other timing differences	-	(5)	-	(6)
Tax losses	-	(4,978)	-	(5,270)
	<u>-</u>	<u>(5,866)</u>	<u>-</u>	<u>(6,450)</u>

The deferred tax asset has not been provided for as it is uncertain whether sufficient taxable profit will arise in the foreseeable future to enable the asset to reverse.

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and laboratory equipment £000's	Office equipment £000's	Assets under construction £000's	Total £000's
Cost				
At 1 January 2015	5,384	783	45	6,212
Additions	464	41	128	633
Disposals	(115)	-	-	(115)
Transfers	173	-	(173)	-
At 31 December 2015	5,906	824	-	6,730
Additions	470	7	26	503
Disposals	(56)	-	-	(56)
Transfers	26	-	(26)	-
At 31 December 2016	6,346	831	-	7,177
Depreciation				
At 1 January 2015	3,980	712	-	4,692
Charge for the period	346	55	-	401
Depreciation on disposals	(108)	-	-	(108)
At 31 December 2015	4,218	767	-	4,985
Charge for the period	304	25	-	329
Depreciation on disposals	(56)	-	-	(56)
At 31 December 2016	4,466	792	-	5,258
Carrying amount				
At 31 December 2016	1,880	39	-	1,919
At 31 December 2015	1,688	57	-	1,745

At 31 December 2016, the Company had entered into contractual commitments for the acquisition of plant and equipment amounting to £nil (2015: £90k).

COBRA BIOLOGICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

14. INVENTORIES

	2016 £000's	2015 £000's
Raw materials & consumables	228	182
	<u>228</u>	<u>182</u>

15. TRADE AND OTHER RECEIVABLES

	2016 £000's	2015 £000's
Trade and other receivables		
Trade receivables	3,794	2,498
Amounts due from group undertakings	29	388
Amounts due from related parties	13	10
Other receivables	254	212
Prepayments	483	519
	<u>4,573</u>	<u>3,627</u>

The average credit period taken on the sales of services is 50 days (2015: 46 days). No interest is charged on the receivables that are overdue. It is the Directors opinion that there are no irrecoverable amounts from the sale of services and no provision has been made for the period (2015: £nil).

The Company's most significant customer account is for £1,497k of trade receivables at 31 December 2016 (2015: £591k).

Impairment losses

The ageing of total trade receivables that had not been impaired at the reporting date were as follows:

	2016 £000's	2015 £000's
Not past due	2,037	1,505
Past due 0 to 30 days	1,568	692
Past due 31 to 60 days	106	107
Past due 61 to 90 days	5	110
Past due 91 to 120 days	78	81
More than 120 days past due	-	3
	<u>3,794</u>	<u>2,498</u>
Less provisions	-	-
	<u>3,794</u>	<u>2,498</u>

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

	2016 £000's	2015 £000's
Balance at the beginning of the period	-	-
Impairment losses reversed	-	-
Impairment loss recognised	-	-
Balance at the end of the period	<u>-</u>	<u>-</u>

Included in the Company's trade receivables are debtors with a carrying amount of £1,757k (2015: £993k) which are past due, but for which the Company has not provided, as there has not been a significant change in the credit quality of the receivables, the amounts are still considered recoverable. The Company does not hold any collateral over these balances.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

COBRA BIOLOGICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

16. LOANS

	2016 £000's	2015 £000's
Unsecured borrowings		
Loans due to Group undertaking, Cobra Biologics Holding AB	15,983	7,297
Immediate parent company loan	<u>10,887</u>	<u>19,959</u>
	<u>26,870</u>	<u>27,256</u>

All borrowings were held in Sterling. During the year Cobra Biologics Holdings AB provided the company with working capital loans. The loan was repayable on demand but not within 12 months of the financial year end. Interest is repayable at 4% over the base rate of the Royal Bank of Scotland Plc.

On 1 July 2016 £9,097k of loans from Cobra Biologics Holding AB to Cobra Biologics Holdings Limited were transferred in full to Cobra Biologics Limited. The loan is now subject to a separate loan agreement between Cobra Biologics Holding AB and Cobra Biologics Limited.

17. TRADE AND OTHER PAYABLES

	2016 £000's	2015 £000's
Trade and other payables		
Trade payables	1,145	1,097
Amounts due to group undertakings	1,227	1,519
Other taxation and social security	94	85
Accruals and other provisions	<u>147</u>	<u>260</u>
	<u>2,613</u>	<u>2,961</u>

Trade payables, amounts due to group undertakings and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken by the Company for trade payables is 49 days (2015: 54 days). For most suppliers no interest is charged on trade payables.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. OTHER FINANCIAL COMMITMENTS

At 31 December 2016 the Company had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows:

	Land & Buildings		Other	
	2016 £000's	2015 £000's	2016 £000's	2015 £000's
Within one year.	211	228	4	10
In the second to fifth year	-	176	19	7
After five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>211</u>	<u>404</u>	<u>23</u>	<u>17</u>

Operating lease payments represent rentals payable by the Company for certain of its properties and office equipment. Leases are negotiated for an average term of 11 and 5 years respectively and rentals are fixed for an average of 2 and 5 years respectively.

COBRA BIOLOGICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

19. CALLED UP SHARE CAPITAL

	No. (000's)	£000's
<i>Authorised</i>		
Ordinary 10 pence shares at 31 December 2015 and 31 December 2016	<u>17,633</u>	<u>1,763</u>
<i>Allotted, called up and fully paid</i>		
Ordinary 10 pence shares at 31 December 2015 and 31 December 2016	<u>13,890</u>	<u>1,389</u>

20. NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2016 £000's	2015 £000's
Profit/(loss) before tax	1,543	(1,686)
Interest expense	544	313
Depreciation of property, plant and equipment	329	401
Profit on sales of property, plant and equipment	(3)	(3)
(Increase)/decrease in inventories	(46)	46
(Increase) in trade and other receivables	(946)	(525)
Increase in deferred income	857	1,077
(Decrease)/increase in trade and other payables	(348)	355
Cash generated from operations	<u>1,930</u>	<u>(22)</u>
R&D tax credit	<u>170</u>	<u>292</u>
Net cash inflow from operating activities	<u>2,100</u>	<u>270</u>

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on demand bank deposits and other short term highly liquid investments. The carrying amount of these assets is approximately equal to their fair value.

The Company has provided National Westminster Bank Plc with security against its assets for the provision of a gross offset facility between the foreign currency bank accounts.

21. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments;

- Credit risk
- Market risk
- Liquidity risk

The note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Board of Directors have overall responsibility for the establishment and oversight of the Company risk management framework. Risk management policies and systems are reviewed bi-annually to reflect changes in market conditions and the Company's activities.

Capital management risk

The Company manages its capital to ensure that it is able to continue as a going concern, whilst maximising shareholders' returns through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes the borrowings in note 16 on page 21, cash and cash equivalents and equity attributable to equity holders as disclosed in the Statement of Changes in Equity on page 11. The Company's directors review the capital structure and as part of this review consider the cost of capital and the costs associated with each class of capital.

COBRA BIOLOGICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

21. FINANCIAL INSTRUMENTS (continued)

Gearing ratio

The gearing ratio at the period end is as follows:

	2016 £000's	2015 £000's
Debt	(26,870)	(27,256)
Cash and cash equivalents	<u>1,041</u>	<u>371</u>
Net debt	<u>(25,829)</u>	<u>(26,885)</u>
Equity	<u>(26,859)</u>	<u>(28,572)</u>
Net debt to equity	<u>(0.96)</u>	<u>(0.94)</u>

Debt includes all long and short term borrowings, including those disclosed in note 16. Equity includes all capital and reserves of the Company attributable to the equity holders of the Company.

Significant accounting policies

Details of significant accounting policies and the methods adopted, including the criteria for recognition, the basis for measurement and the basis upon which the income and expenditure is recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 of the financial statements.

	2016 £000's	2015 £000's
Financial assets		
Loans and receivables	5,131	3,108
Cash and cash equivalents	<u>1,041</u>	<u>371</u>
	<u>6,172</u>	<u>3,479</u>

	2016 £000's	2015 £000's
Financial liabilities		
Amortised cost	<u>29,389</u>	<u>30,132</u>
	<u>29,389</u>	<u>30,132</u>

Market risk

The activities of the Company expose the Company to the financial risks of changes in the foreign exchanges, primarily the US Dollar, Euro, Swedish Kroner and interest rates. The Company previously entered into derivative financial instruments when appropriate, to manage this exposure, including the following:

- Forward exchange rate contract to hedge against the exchange rate risk arising from the provision of services to overseas customers.

Foreign currency risk management

The Company generates a proportion of its order book and subsequent revenue from overseas customers in either US Dollars, Euros or Swedish Kroner, with the majority of its costs denominated in GBP Sterling. This exposure to different currencies can result in gains or losses with respect to the movements in foreign exchange rates and the impact of such fluctuations can be material. Accordingly, the Company manages its foreign currency exposure through the use of foreign currency bank accounts which have an offset facility with the GBP Sterling bank account. This allows the Company to hold foreign currency until appropriate exchange rates can be obtained. Additionally, the Company incurs expenditure overseas in foreign currencies which helps to mitigate the foreign exchange risk.

COBRA BIOLOGICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)**

21. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management

The carrying amounts of the Company's foreign currency denominated monetary assets/(liabilities) at 31 December 2016 are as follows:

	Liabilities		Assets	
	2016 £000's	2015 £000's	2016 £000's	2015 £000's
US Dollar	<u>(26)</u>	<u>(78)</u>	<u>1,542</u>	<u>739</u>
Euro	<u>(44)</u>	<u>(55)</u>	<u>148</u>	<u>-</u>
Swedish Kroner	<u>(784)</u>	<u>(1,052)</u>	<u>610</u>	<u>1,428</u>
Japanese Yen	<u>-</u>	<u>-</u>	<u>33</u>	<u>113</u>

Foreign currency sensitivity analysis

The table below details the Company's sensitivity to a 10% movement in foreign currency rates against GBP Sterling which in the directors' opinion is reasonable given current market conditions. The sensitivity analysis includes only outstanding foreign currency denominated monetary assets/(liabilities) and adjusts their translation at 31 December 2016 for a 10% strengthening in foreign currency rates. The analysis is performed on the same basis as at 31 December 2015.

	US Dollar currency impact		Euro currency impact		Swedish Kroner currency impact		Japanese Yen currency impact	
	2016 £000's	2015 £000's	2016 £000's	2015 £000's	2016 £000's	2015 £000's	2016 £000's	2015 £000's
Statement of comprehensive income	(134)	(83)	(8)	1	8	(49)	(3)	(12)
Equity	<u>(134)</u>	<u>(83)</u>	<u>(8)</u>	<u>1</u>	<u>8</u>	<u>(49)</u>	<u>(3)</u>	<u>(12)</u>

A 10% weakening in foreign exchange rates against GBP Sterling would have an equal but opposite effect.

Interest rate risk management

The Company is exposed to interest rate risk as the Company borrows funds at both fixed and floating interest rates. The Company's exposure to interest rates on financial assets and liabilities are listed in the liquidity section of this note.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined upon the exposure to interest rates for both derivatives and non derivative instruments at the balance sheet date. For floating rate liabilities, the liability is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole of the year. The calculation reflects a 0.5% strengthening in interest rate, which in the directors' opinion is reasonable given current market conditions.

If interest had strengthened by 0.5% and all other variables remained constant the effect on the Company's financial statements would be to decrease the profit for the period 31 December 2016 and decrease reserves by £75k (2015: £35k). This is mainly due to the Company's exposure on its variable rate borrowings.

A 0.5% decrease in interest rates would have an equal but opposite effect.

COBRA BIOLOGICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

21. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk management

The Company's credit risk relates to trade receivables and cash and cash equivalents. The credit risk on liquid funds is limited because the Company utilises counterparts who are established entities in the United Kingdom, and regularly reviews the performance and rating of these entities. The Company has no significant concentration of credit risk related to receivables, as the exposure is spread over a number of customers over different geographical areas. The Company uses publicly available trading records, web site analysis and press releases to rate its customers.

Disclosures relating to the credit risk associated with trade receivables are in the Strategic Report on page 2 and in note 15.

Liquidity risk

Liquidity risk management

The Company manages liquidity risk by maintaining appropriate banking facilities and through loan facilities provided by the ultimate parent company. The directors continuously monitor cash flow forecasts, both short and long term and then measuring those forecasts to actual performance. Consideration is also given to the maturity profiles of financial assets and liabilities.

The table below details the Company's remaining contractual maturity for its non derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows:

	On demand £000's	Within 3 months £000's	Within 3 to 12 months £000's	Within 1 to 5 years £000's	Due after 5 years £000's	Total £000's
2016						
Amount due to group undertaking	-	-	-	15,983	-	15,983
Amount due to immediate parent company	-	-	-	10,887	-	10,887
	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,870</u>	<u>-</u>	<u>26,870</u>
2015						
Amount due to group undertaking	-	-	-	7,297	-	7,297
Amount due to immediate parent company	-	-	-	19,959	-	19,959
	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,256</u>	<u>-</u>	<u>27,256</u>

Fair values of financial assets and financial liabilities

The fair value, based upon discounted cash flows of the financial instruments detailed above was not materially different from their book values.

22. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme established with Scottish Widows Plc. The assets of the scheme are held separately from those of the Company and are independently administered. The contributions payable by the Company under the scheme amounted to £0.4m (2015: £0.3m). Contributions totalling £34k (2015: £33k) were payable at the period end.

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23. RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

The remuneration of the directors, who are considered to be key management personnel of the Company are disclosed in note 9.

Other related party transactions

The Company entered into the following related party transactions during the year:

Transactions with the parent undertaking, Cobra Biologics Holdings Limited

	2016 £000's	2015 £000's
Management charge	596	424
Movements on inter company account	(9,668)	(380)
Movement in period	(9,072)	44
Amount payable at the beginning of the year	19,959	19,915
Amount payable at the end of the year	10,887	19,959

Transactions with intermediate parent undertaking, Cobra Biologics Holding AB

	2016 £000's	2015 £000's
Recharges of expenses	23	15
Management fee	(25)	(23)
Total recharges during the period	(2)	(8)
Amount payable at the end of the year	(14)	(20)
Loan made during the year	8,148	531
Interest charges	538	305
Movement in period	8,686	836
Amount payable at the beginning of the year	7,297	6,461
Amount payable at the end of the year	15,983	7,297

The loans are repayable on demand but not within 12 months of the financial period end. Interest is payable at 4% over the base rate of The Royal Bank of Scotland Plc.

Transactions with a group undertaking, Cobra Biologics AB

	2016 £000's	2015 £000's
Recharges for sales and marketing	27	411
Recharges for central administrative personnel	6	125
Recharges for research projects	16	72
Other recharges	78	67
Total recharges during the year	127	675
Amount receivable at the end of the year	18	48

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(CONTINUED)**

23. RELATED PARTY TRANSACTIONS (continued)

	2016 £000's	2015 £000's
Subcontract activities	7,462	7,156
Recharges for consumables	3,785	3,341
Other recharges	368	6
Total recharges incurred during the year	11,615	10,503
Amount payable at the end of the year	1,201	1,440

Transactions with a group undertaking, Cobra Biopharma Matfors AB

	2016 £000's	2015 £000's
Recharges for sales and marketing	257	268
Recharges for central administrative personnel	120	137
Recharges for research projects	86	176
Other recharges	45	311
Total recharges during the year	508	892

Amount receivable at the end of the year	-	337
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Subcontract activities	249	226
Recharges for consumables	102	72
Total recharges incurred during the year	351	298

Amount payable at the end of the year	-	55
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Transactions with a company under common control, Prokarium Limited

	2016 £000's	2015 £000's
Subcontract services including consumables	33	74
Facility service charge	117	115
Patent assignment	12	-
Other recharges	6	3
Total recharges during the year	168	192

Amount receivable at the end of the year	13	10
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All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

24. PARENT UNDERTAKINGS AND ULTIMATE CONTROLLING PARTY

At the balance sheet date the immediate parent undertaking was Cobra Biologics Holdings Limited, which was itself a wholly owned subsidiary of Cobra Biologics Holding AB, a company incorporated in Sweden.

Cobra Biologics Holding AB has produced consolidated financial statements, in accordance with International Financial Reporting Standards, which have been filed at Companies House, Crown Way, Cardiff CF14 3UZ.

At the balance sheet date the ultimate parent undertaking was Zentricity Holdings AB, a company incorporated in Sweden, and the ultimate controlling party was Thomas Eldered.